S
353.9
L72MWPC
2003

Legislative Audit Division

State of Montana

Report to the Legislature

March 2004

Financial Audit

For the Fiscal Year Ended June 30, 2003

Montana Water Pollution Control and Drinking Water State Revolving Fund Programs

Department of Environmental Quality
Department of Natural Resources and Conservation

We performed a financial audit of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs for the fiscal year ended June 30, 2003. This report contains the audited financial statements and accompanying notes for fiscal year 2002-03. We issued an unqualified opinion on the financial statements. The opinion means the reader may rely on the financial statement information presented.

STATE DOCUMENTS COLLECTION
APR 2004
MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA

Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

03SP-85

Help eliminate fraud, waste, and abuse in state government. Call the Fraud Hotline at 1-800-222-4446 statewide or 444-4446 in Helena.

MONTANA STATE LIBRARY
3 0864 1002 2303 4

FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator John Cobb
Senator Mike Cooney
Senator Jim Elliott, Vice Chair
Senator John Esp
Senator Dan Harrington
Senator Corey Stapleton

Representative Dee Brown
Representative Tim Callahan
Representative Hal Jacobson
Representative John Musgrove
Representative Jeff Pattison, Chair
Representative Rick Ripley

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

March 2004

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the fiscal year 2002-03 financial audit of the Montana Water Pollution Control State Revolving Fund (WPCSRF) and Drinking Water State Revolving Fund (DWSRF) Programs. The Department of Natural Resources and Conservation requested the audit of these programs because annual audits are required by the federal Environmental Protection Agency.

The objectives of a financial audit include determining if the programs' financial statements present fairly their financial position at June 30, 2003, and the results of the programs' operations for the fiscal year then ended. We tested compliance with state and federal laws that have a direct and material impact on the financial statements.

The WPCSRF program provides loans at a reduced interest rate to finance construction of publicly-owned water pollution control facilities, nonpoint source pollution control projects, and estuary management plans. Water pollution control loans are comprised of federal grants and state match funds, and must be repaid within 20 years. As of June 30, 2003, the Water Pollution Control Program had $95,191,431 of outstanding loans, including advances from other funds.

The DWSRF program provides low interest loans to communities for the construction of drinking water treatment facilities. Drinking water loans are comprised of federal grants and state match funds, and may be financed up to 30 years. At June 30, 2003, the Drinking Water Program had $47,109,491 of outstanding loans.

On page A-1, you will find the Independent Auditor's Report followed by the financial statements and accompanying notes. We issued an unqualified opinion which means the reader can rely on the presented information. The programs' financial statements begin on page A-3. Our opinion on the programs' supplementary financial information is on page B-1. The supplementary information begins on page B-3. Beginning on page C-1 is our report on compliance and internal control which is required by *Government Auditing Standards* issued by the Comptroller General of the United States. The departments have reviewed this report and agree with the contents.

We thank the directors of the Department of Environmental Quality and the Department of Natural Resources and Conservation and their staff for cooperation and assistance during the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Room 160, State Capitol Building PO Box 201705 Helena, MT 59620-1705
Phone (406) 444-3122 FAX (406) 444-9784 E-Mail lad@state.mt.us

Digitized by the Internet Archive
in 2010 with funding from
Montana State Library

http://www.archive.org/details/montanawaterpoll2003mont

Department of Environmental Quality	Jan Sensibaugh, Director
	Tom Livers, Deputy Director
	Ann Danzer, Chief Financial Officer, Financial Services
Department of Natural Resources and Conservation	Bud Clinch, Director
	Anna Miller, Financial Advisor
	Ann Bauchman, Administrator, Centralized Services Division

For additional information concerning the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs, contact Anna Miller, Financial Advisor, at:

PO Box 201601
Helena MT 59620-1601
(406) 444-6689

e-mail: annam@state.mt.us

The audit staff involved in this audit were Angie Lang and Alexa O'Dell.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Combined Balance Sheet of the Montana Water Pollution Control State Revolving Fund (WPCSRF) and Drinking Water State Revolving Fund (DWSRF) as of June 30, 2003, and the related Combined Statement of Revenues, Expenditures, and Changes in Fund Balance for the fiscal year then ended. The information contained in these financial statements is the responsibility of the management at the Montana Department of Environmental Quality and the Montana Department of Natural Resources and Conservation (departments). Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in the notes to the financial statements, the financial statements of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the state of Montana that is attributable to the transactions of the programs.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs as of June 30, 2003, and results of operations for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 5, 2004, on our consideration of the departments' compliance with laws and regulations and the departments' internal control structures.

Respectfully submitted,

James Gillett, CPA
Deputy Legislative Auditor

March 5, 2004

MONTANA WATER POLLUTION CONTROL AND DRINKING WATER
STATE REVOLVING FUND PROGRAMS
COMBINED BALANCE SHEET
SPECIAL REVENUE AND DEBT SERVICE FUNDS
JUNE 30, 2003

	WATER POLLUTION CONTROL			DRINKING WATER			
ASSETS	**STATE SPECIAL REVENUE**	**FEDERAL SPECIAL REVENUE**	**DEBT SERVICE**	**STATE SPECIAL REVENUE**	**FEDERAL SPECIAL REVENUE**	**DEBT SERVICE**	**TOTAL**
Cash/Cash Equivalents	$2,974,333	$772	$803,839	$3,547,226	$21,709	$701,163	$8,049,042
Expense Advances to Employees		500			1,000		1,500
Interest Receivable	270,808		1,159,175	115,881		500,757	2,046,621
Due from Federal Government		25,335			248,115		273,450
Investments	11,940,129		1,273,472	5,039,077		765,747	19,018,425
Loans Receivable	84,695,921			47,109,491			131,805,412
Advances from Other Funds	10,495,510						10,495,510
Total Assets	$110,376,701	$26,607	$3,236,486	$55,811,675	$270,824	$1,967,667	$171,689,960
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts Payable	$25,775	$7,888		$23,174	$270,689		$327,525
Payroll Payable	24,719	7,677					32,396
Deferred Revenue		43			30,395		30,438
Interentity Loans Payable	5,000	11,000					16,000
Total Liabilities	$55,494	$26,607	$0	$23,174	$301,084	$0	$406,359
Fund Balances							
Reserved for Loans Receivable and Advances	$91,923,022			$46,398,069			$138,321,091
Unreserved, Undesignated	18,398,185		$3,236,486	9,390,432	($30,260)	$1,967,667	32,962,510
Total Fund Balances	$110,321,207	$0	$3,236,486	$55,788,501	($30,260)	$1,967,667	$171,283,601
Total Liabilities and Fund Balances	$110,376,701	$26,607	$3,236,486	$55,811,675	$270,824	$1,967,667	$171,689,960

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA WATER POLLUTION CONTROL AND DRINKING WATER
STATE REVOLVING FUND PROGRAMS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
SPECIAL REVENUE AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	WATER POLLUTION CONTROL			DRINKING WATER			
	STATE SPECIAL REVENUE	FEDERAL SPECIAL REVENUE	DEBT SERVICE	STATE SPECIAL REVENUE	FEDERAL SPECIAL REVENUE	DEBT SERVICE	TOTAL
REVENUES							
Federal Capitalization Grant Revenue		$17,080,715			$8,096,835		$25,177,550
Interest Income on Investments	$942,164		$15,477	$392,467		$185,744	1,535,851
Interest Earnings from Loans	726,785		2,878,683	183,239		1,577,601	5,366,308
Administration and Origination Fees	429,754	29		100,594	107		530,484
TOTAL REVENUES	$2,098,703	$17,080,744	$2,894,159	$676,300	$8,096,943	$1,763,345	$32,610,194
EXPENDITURES							
Program Administration/Set-Asides	$70,999	$319,982		$1,982	$1,504,582		$1,897,546
TOTAL EXPENDITURES	$70,999	$319,982	$0	$1,982	$1,504,582	$0	$1,897,546
Excess Revenues Over/(Under)	$2,027,703	$16,760,762	$2,894,159	$674,318	$6,592,361	$1,763,345	$30,712,648
OTHER FINANCING SOURCES:							
General Obligation Bonds Proceeds	$2,730,000			$1,675,000			$4,405,000
Operating Transfers In							
Debt Service Sweep	455,525			450,650			906,175
Debt Service Transfer to BAN Fund	50,000						50,000
Origination/Administrative Fees			$263,053	36,724		$63,870	363,647
Loan Loss Reserve Sweep	1,005,804			375,014		3,125	1,383,943
Arbitrage Rebates	45,817		2,559	31,970			80,347
Federal Capitalization Grants	16,760,762			6,503,192			23,263,954
Total Other Financing Sources	$21,047,908	$0	$265,612	$9,072,550	$0	$66,995	$30,453,066
OTHER FINANCING USES:							
Bond Principal			$515,000			$310,000	$825,000
Bond Interest			651,258			411,822	1,063,079
Bonds Cost of Issuance	$91,127			$64,500			155,627
Arbitrage Taxes			84,166				84,166
Operating Transfers Out							
Debt Service Sweep			455,525			450,650	906,175
Debt Service Transfer to BAN Fund			50,000				50,000
Origination/Administrative Fees Transfer	263,053			100,594			363,647
Arbitrage Rebates	2,559		45,817			31,970	80,347
Loan Loss Reserve Sweep			1,005,804	3,125		375,014	1,383,943
Federal Capitalization Grants		$16,760,762			$6,503,192		23,263,954
Total Other Financing Uses	$356,739	$16,760,762	$2,807,569	$168,219	$6,503,192	$1,579,456	$28,175,938
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	$22,718,872	$0	$352,202	$9,578,649	$89,169	$250,884	$32,989,776
Fund Balance - July 1, 2002	$93,266,625	$0	$15,310,057	$50,156,514	($72,217)	$7,839,358	$166,500,337
Prior Year end Federal Revenue Adjustments	(5,664,290)		(12,425,773)	(3,946,662)	(47,211)	(6,122,575)	(28,206,511)
Fund Balance - June 30, 2003	$110,321,207	$0	$3,236,486	$55,788,501	($30,260)	$1,967,667	$171,283,601

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA STATE WATER POLLUTION CONTROL AND DRINKING WATER STATE REVOLVING FUND PROGRAMS
SPECIAL REVENUE AND DEBT SERVICE FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

1. Organization of the Programs

The State of Montana's Water Pollution Control State Revolving Fund (WPCSRF) Program was established pursuant to Title VI of the Federal Water Quality Act of 1987. This federal act established the WPCSRF program to replace the construction grants program to provide a flexible financing source to loan money at reduced interest rates to finance the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and estuary management plans. Instead of making grants to communities that pay for a portion of building wastewater treatment facilities, the WPCSRF provides for low interest rate loans to finance the entire cost of qualified projects.

The State of Montana's Drinking Water State Revolving Fund (DWSRF) Program was established pursuant to Title XIV of the Safe Drinking Water Act. This federal act established the DWSRF program for states to make loans to community water systems and non-profit non-community water systems. Instead of making grants to communities that pay for a portion of building drinking water treatment facilities, the DWSRF provides for low interest rate loans to finance the entire cost of qualified projects or to refinance debt obligations on projects that began after July 1, 1993. The State of Montana first incurred expenditures in the DWSRF Program in state fiscal year (SFY) 1997.

WPCSRF loans must be repaid within 20 years, and up to 30 years under special circumstances, while DWSRF loan agreements allow up to 30 years for repayment. All repayments of interest and principal must remain in the revolving funds. Both programs are capitalized through U.S. Environmental Protection Agency (EPA) grants. States are required to provide 20 percent of the federal capitalization grant as matching funds in order to receive a grant. The State of Montana issues General Obligation Bonds to provide the required state matching funds.

The programs are administered jointly by the Department of Environmental Quality (DEQ) Technical and Financial Assistance Bureau, and the Conservation and Resource Development Division of the Department of Natural Resources and Conservation (DNRC). The revolving fund programs do not have any full time employees. Both funds are charged for time spent on SRF activities by department employees. The charges include salaries and benefits of the employees and operating expenses as well as indirect costs.

2. Summary of Significant Accounting Policies

A. State Revolving Fund (SRF) Program Fund Structure

Both programs use Special Revenue and Debt Service funds, as appropriate, to report the financial position and the results of operations. A Special Revenue Fund accounts for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes (other than expendable trusts or major capital projects). A Debt Service Fund accounts for

resources accumulated for payment of principal and interest on general long-term obligation debt. Montana maintains a State Special Revenue and a Federal Special Revenue Fund. The SRF program revenue and expenses include transactions from each Special Revenue Fund. Special Revenue and Debt Service Funds are considered governmental funds.

A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities.

B. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only assets and current liabilities generally are included on the balance sheet. Operating statements of governmental funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Governmental funds use the modified accrual basis of accounting. The modified accrual basis is the accrual basis adapted to the governmental fund-type measurement focus. Under the modified accrual basis of accounting, revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available within sixty days after the end of the fiscal year to finance expenditures of the fiscal year. Revenues are deferred if material and received before the normal time of receipt or if received for a particular activity and the expense for that activity has not been incurred prior to fiscal year-end. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

1) principal and interest on long-term debt are recognized when due;
2) prepayments are accounted for as expenditures in the period of acquisition;
3) inventory items are considered expenditures when purchased.

The Loans Receivable account resides in the State Special Revenue fund for each program. This account represents the total principal due on the loans outstanding for each program.

3. Cash/Cash Equivalents

Cash and cash equivalents consist of funds deposited with the US Bank, N.A. as trustee, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less.

Risk Category 1	Carrying Amount	Fair Value	Fund
Money Market Direct Investment	$7,637,627	$7,914,628	Various

4. Investments

The Board of Examiners of the State of Montana authorizes the sale of general obligation bonds to provide the state match for the SRF programs through the issuance of an Indenture of Trust. The Board of Examiners is comprised of the Governor, Attorney General and the Secretary of

State for the State of Montana. The Indenture of Trust specifies the eligible investments meeting defined rating and risk criteria in which the state may invest. The state invests funds through its trustee bank, US Bank, N.A.

Security Type	Category 1	Carrying Amount	Market Value
Government Securities	$18,309,482	$18,309,482	$18,741,424

5. Loans Receivable

Montana operates both SRF programs as direct loan programs. Loans made to communities through the Water Pollution Control Program are funded 83.33 percent by the federal EPA capitalization grant, and 16.67 percent by the state match amount. Loans also are made as recycled, or "second round", loans and are disbursed from loan repayment funds. Loans made by the Drinking Water Program are funded approximately 80 percent by the federal EPA capitalization grant, and 20 percent by the state match amount. Loan funds are disbursed to the local agencies by the trustee bank as local agencies expend funds for the purposes of the loan and request reimbursement from the program. Interest is calculated from the date that funds are disbursed. Typically after the final disbursement has been made, the payment schedule is certified in the loan agreement and adjusted for the actual amounts disbursed. No provision for uncollectible accounts has been made as all loans are current in terms of compliance with the repayment schedules, and management believes that all loans will be repaid according to the terms of the loan agreement.

The drawn and outstanding principal balance of all closed loans guaranteed by the WPCSRF Program as of June 30, 2003 is $95,191,432. The total loans receivable in the WPCSRF program includes $10,495,510 classified as advances from other funds long-term. The advances are inter-fund loans within the Department of Natural Resources and Conservation used for the non-point source private loans program.. The drawn and outstanding principal balance of all closed loans guaranteed by the DWSRF Program as of June 30, 2003 is $47,109,491.

Loans mature at various intervals through July 1, 2031. The scheduled principal payments on loans maturing in the years after state fiscal year 2003 are as follows:

SFY ending June 30:	WPCSRF Amount	DWSRF Amount
2004	$ 5,395,951	$ 2,398,304
2005	$ 4,894,508	$ 2,407,598
2006	$ 5,226,242	$ 2,499,503
2007	$ 5,432,197	$ 2,614,571
2008 and thereafter	$ 74,242,534	$ 37,189,515
Total	**$ 95,191,432**	**$ 47,109,491**

As of June 30, 2003, the WPCSRF and DWSRF had authorized loans to public entities of the State of Montana that in the aggregate exceeded $144 and $56 million, respectively. The outstanding balances of the largest loans in each portfolio are as follows:

Water Pollution Control State Revolving Fund:

Local Agency	Authorized Loan Amount	Outstanding Balance
City of Great Falls	$ 12,100,000	$ 10,379,068
City of Helena	$ 9,320,000	$ 9,062,000
Big Sky County Water & Sewer	$ 7,000,000	$ 3,593,000
Big Sky County Water & Sewer	$ 5,513,000	$ 3,789,000
City of Butte-Silver Bow	$ 5,307,390	$ 894,408
Missoula WWTP	$ 5,000,000	$ 2,342,412
City of Missoula SID 524	$ 4,577,000	$ 2,024,173
Gallatin Co – Hebgen	$ 4,136,000	$ 3,725,000
City of Kalispell	$ 3,913,000	$ 2,331,000
Flathead County Evergreen	$ 3,600,000	$ 2,100,000
Total	**$ 60,466,390**	**$ 40,240,061**

Drinking Water State Revolving Fund:

Local Agency	Authorized Loan Amount	Outstanding Balance
City of Havre II	$ 8,401,000	$ 8,281,000
City of Whitefish II	$ 5,839,000	$ 5,007,000
City of Laurel	$ 5,250,000	$ 4,402,000
City of East Helena II	$ 3,234,000	$ 2,981,000
City of Great Falls	$ 3,000,000	$ 2,186,417
Laurel II	$ 2,541,000	$ 1,332,757
River Rock Water & Sewer	$ 2,100,000	$ 2,070,000
Big Sky County Water & Sewer	$ 1,966,000	$ 50,964
Lockwood Water & Sewer	$ 1,700,000	$ 884,000
City of Glendive	$ 1,565,000	$ 1,523,000
Total	**$ 35,596,000**	**$ 28,718,138**

6. Interest Receivable

The interest receivable represents interest owed by borrowers as of June 30, 2003, for the July 1, 2003 payment. It represents the six months of interest accrued from the previous loan payments due January 1, 2003. It does not include interest payments received in June that were due July 1, 2003. Interest payments received in June 2003 amounted to $328,257 for the WPCSRF and $248,192 for the DWSRF.

7. Bonds Payable

Water Pollution Control SRF general obligation bonds payable at June 30, 2003 were as follows:

Series 1994B

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2004	4.20 - 6.10	$ 90,000	$ 95,126	$ 185,126
2005		95,000	90,268	185,268
2006		100,000	85,050	185,050
2007		105,000	79,463	184,463
2008		110,000	73,496	183,496
2009-2013		670,000	259,015	929,015
2014-2016		510,000	47,845	557,845
Total Cash Requirements		$1,680,000	$ 730,263	$ 2,410,263

Series 1996C

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2004	3.75 – 5.75	$ 125,000	$ 115,003	$ 240,003
2005		135,000	108,565	243,565
2006		140,000	101,620	241,620
2007		145,000	94,280	239,280
2008		155,000	86,403	241,403
2009-2013		905,000	293,148	1,198,148
2014-2017		560,000	56,296	616,296
Total Cash Requirements		$2,165,000	$ 855,315	$ 3,020,315

Series 1998A

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2004	3.75 – 5.15	$ 135,000	$ 141,504	$ 276,504
2005		140,000	135,727	275,727
2006		145,000	129,635	274,635
2007		150,000	123,218	273,218
2008		155,000	116,469	271,469
2009-2013		900,000	464,714	1,364,714
2014-2018		1,135,000	216,769	1,351,769
2019		260,000	6,695	266,695
Total Cash Requirements		$3,020,000	$ 1,334,731	$ 4,354,731

Series 2000B

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2004	4.25 – 5.60	$ 105,000	$ 160,380	$ 265,380
2005		115,000	155,181	270,181
2006		120,000	149,570	269,570
2007		125,000	143,659	268,659
2008		130,000	137,459	267,459
2009-2013		765,000	580,571	1,345,571
2014-2018		1,005,000	352,240	1,357,240
2019-2021		760,000	65,214	825,214
Total Cash Requirements		$3,125,000	$ 1,744,274	$ 4,869,274

Series 2001H

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2004	4.00 – 5.00	$ 95,000	$ 115,096	$ 210,096
2005		100,000	111,196	211,196
2006		100,000	107,196	207,196
2007		105,000	103,096	208,096
2008		110,000	98,796	208,796
2009-2013		605,000	423,135	1,028,135
2014-2018		755,000	274,459	1,029,459
2019-2022		740,000	76,036	816,036
Total Cash Requirements		$2,610,000	$ 1,309,010	$ 3,919,010

Series 2003D

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2004	2.00 – 3.75	$ 0	$ 47,017	$ 47,017
2005		145,000	79,150	224,150
2006		155,000	76,150	231,150
2007		160,000	73,000	233,000
2008		160,000	69,800	229,800
2009-2013		875,000	288,339	1,163,339
2014-2018		1,010,000	138,698	1,148,698
2019		225,000	4,219	229,219
Total Cash Requirements		$2,730,000	$ 776,373	$ 3,506,373

Total General Obligation Debt - WPCSRF

Payable during the year ending June 30,	Principal	Interest	Total
2004	$ 550,000	$ 674,126	$ 1,224,126
2005	730,000	680,087	1,410,087
2006	760,000	649,221	1,409,221
2007	790,000	616,716	1,406,716
2008	820,000	582,423	1,402,423
2009-2013	4,720,000	2,308,922	7,028,922
2014-2018	4,975,000	1,086,307	6,061,307
2019-2021	1,985,000	152,164	2,137,164
Total Cash Requirements	$15,330,000	$6,749,966	$ 22,079,966

Drinking Water SRF general obligation bonds payable at June 30, 2003 were as follows:

Series 1998F

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2004	3.60 – 4.85	$ 125,000	$ 118,227	$ 243,227
2005		130,000	113,317	243,317
2006		130,000	108,182	238,182
2007		140,000	102,747	242,747
2008		145,000	96,940	241,940
2009-2013		810,000	386,042	1,196,042
2014-2018		1,010,000	179,566	1,189,566
2019		230,000	5,577	235,577
Total Cash Requirements		$2,720,000	$ 1,110,598	$ 3,830,598

Series 2000A

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2004	4.25 – 5.60	$ 100,000	$ 143,800	$ 243,800
2005		100,000	139,075	239,075
2006		105,000	134,180	239,180
2007		110,000	128,993	238,993
2008		120,000	123,401	243,401
2009-2013		690,000	520,334	1,210,334
2014-2018		900,000	315,344	1,215,344
2019-2021		680,000	58,244	738,244
Total Cash Requirements		$2,805,000	$ 1,563,371	$ 4,368,371

Series 2001G

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2004	4.00 – 5.00	$ 110,000	$ 136,566	$ 246,566
2005		115,000	132,066	247,066
2006		120,000	127,366	247,366
2007		125,000	122,466	247,466
2008		125,000	117,466	242,466
2009-2013		725,000	503,192	1,228,192
2014-2018		895,000	326,195	1,221,195
2019-2021		880,000	89,944	969,944
Total Cash Requirements		$3,095,000	$ 1,555,261	$ 4,650,261

Series 2003E

Payable during the year ending June 30,	Interest Range (%)	Principal	Interest	Total
2004	2.00 – 3.75	$ 0	$ 28,895	$ 28,895
2005		90,000	48,636	138,636
2006		95,000	46,786	141,786
2007		95,000	44,886	139,886
2008		100,000	42,936	142,936
2009-2013		530,000	177,660	707,660
2014-2018		625,000	86,347	711,347
2019-2021		140,000	2,625	142,625
Total Cash Requirements		$1,675,000	$ 478,771	$ 2,153,771

Total General Obligation Debt - DWSRF

Payable during the year ending June 30,	Principal	Interest	Total
2004	$ 335,000	$ 427,488	$ 762,488
2005	435,000	433,094	868,094
2006	450,000	416,514	866,514
2007	470,000	399,092	869,092
2008	490,000	380,743	870,743
2009-2013	2,755,000	1,587,228	4,342,228
2014-2018	3,430,000	907,452	4,337,452
2019-2021	1,930,000	156,390	2,086,390
Total Cash Requirements	$10,295,000	$4,708,001	$ 15,003,001

8. Fund Balance

A portion of the fund balance in the WPCSRF and DWSRF has been reserved for Loans and Advances Receivable, indicating that a portion of the fund balance is not available for current expenditure.

9. Program Capitalization

The WPCSRF and DWSRF programs are capitalized by grants from the Environmental Protection Agency (EPA) and matching funds from the State of Montana. All grant funds drawn are recorded as revenue. As of June 30, 2003, EPA has awarded capitalization grants of $102,445,265 to the State of Montana for the WPCSRF program; $129,016,961 has been drawn for loans and administrative expenses. As of June 30, 2003, EPA has awarded capitalization grants of $53,009,900 to the State of Montana for the DWSRF program; $52,109,697 has been drawn for loans and administrative expenses. Montana has issued bonds totaling $19,815,000 for use as state matching funds for the WPCSRF program and $10,920,000 for use as state matching funds in the DWSRF program.

10. Federal Capitalization Grant Revenues

Actual draws of federal funds differ from the amount of Federal Capitalization Grant Revenue reported on the Statement of Revenues, Expenditures and Changes in Fund Balance. This occurs because state accounting policy requires federal special revenue funds reflect a zero fund balance at fiscal year-end (with the exception of "A" accruals). Consequently, if a positive fund balance exists, deferred revenue is recorded. If a negative fund balance is reflected at fiscal year-end, a revenue accrual to record revenue is recorded to zero the fund balance.

The following is a reconciliation of federal revenues reported on the financial statements to federal cash actually drawn during the state fiscal year:

WPC-SRF

Federal Capital Grant Revenue – Financial Statement:	$17,080,715
Adjustment to Deferred Revenue from FY 02	320,952
Adjustment for FYE 03 Due from Federal Govt.	(25,336)
Total Federal Draws	**$17,376,331**

DW-SRF

Federal Capital Grant Revenue – Financial Statement:	$ 8,096,760
Adjustment Due From Federal Govt. – FY 02	204,397
Adjustment Due From Fed Govt. – FY 03	(248,115)
Adjustment to Deferred Revenue – FY 02	344,068
Adjustment to Deferred Revenue – FY 03	(30,339)
Total Federal Draws	**$ 8,366,771**

11. Interest Income on Investments
This revenue represents interest earnings on investments in the various accounts within the Funds. All assets of the Funds are invested to the degree possible by the trustee in investment vehicles, ranging from cash equivalents to long-term investments.

12. Interest Earnings
This revenue represents interest earnings from loan repayments made by borrowers. A typical loan carries an interest rate of 4%. This 4% is comprised of a loan interest rate of 2.25%, as well as a 1.00% Loan Loss Reserve fee and a 0.75% Special Administration fee. The earnings for each of these components totaled $2,087,811, $830,878, and $686,779, respectively, for the Water Pollution Control SRF program and $946,821, $431,563, and $382,455, respectively, for the Drinking Water SRF program. Disadvantaged communities can receive loans with an interest rate of 3% because no Loan Loss Reserve fee is levied.

13. Program Administration
This expenditure represents costs incurred by DEQ and DNRC to administer the SRF programs. This amount is limited to 4% of each grant award from the EPA. Program Administration appears under the Resource Development/Recreation function in the State of Montana's CAFR.

14. Other Financing Sources and Uses
Loan interest amounts received that exceed the debt service requirements are shown as a Financing Source and Use on the financial statements. The balance remaining in the Debt Service Account is transferred to the Investment Account. Both accounts are within the SRF fund. This occurs after payments are rendered to the bondholders on July 15 of each year. In the Arbitrage Certificate, this activity is termed a Debt Service Sweep.

Administration and Origination Fees are shown as both a Financing Source and Use of funds because the fees are initially recorded inside the Loan Account when disbursed. These revenues are then transferred to the Special Administration and Loan Loss Reserve Accounts, which are outside the Fund.

The Loan Loss Reserve Sweep represents monies in excess of the reserve requirement that are transferred from the Loan Loss Reserve Account to the Special Administration Account per the bond indenture. Both accounts are considered outside the fund.

The Arbitrage Rebate Transfer reflects monies transferred into the Rebate Account (outside the fund) based on the annual arbitrage rebate liability calculation.

15. Subsequent Events
An INTERCAP Bond Anticipation Note (BAN) for the Wastewater Program was issued by the Board of Investments in May, 2003 in the amount of $2,000,000. The maturity date for the note is June 30, 2004. The note was issued in anticipation of the sale of a new bond during FY 2004.

The interest rate for both the Drinking Water and the Wastewater Programs decreased as of July 1, 2003 for new loans. The total interest rate decreased to 3.75%, which is 2.00% interest cost, 0.75% Administrative fee and 1% for the Loan Loss Reserve Account.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Our audit was conducted for the purpose of forming an opinion on the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs' financial statements taken as a whole. The Schedule of Revolving and Non-Revolving SRF Program Assets, Special Revenue and Debt Service Funds, for the Montana Water Pollution Control and Drinking Water Programs and the related Schedule of Revolving and Non-Revolving SRF Program Revenues, Expenditures, and Changes in Fund Balance, Special Revenue and Debt Service Funds are presented for purposes of additional analysis and are not a required part of the financial statements of these programs. Such information has been subjected to the auditing procedures applied in the audit of the programs' financial statements and, in our opinion, based upon our audit, is fairly presented in all material respects in relation to the programs' financial statements taken as a whole.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

March 5, 2004

Room 160, State Capitol Building PO Box 201705 Helena, MT 59620-1705
Phone (406) 444-3122 FAX (406) 444-9784 E-Mail lad@state.mt.us

MONTANA WATER POLLUTION CONTROL AND DRINKING WATER
SCHEDULE OF REVOLVING AND NON-REVOLVING SRF PROGRAM ASSETS
SPECIAL REVENUE AND DEBT SERVICE FUNDS
REGULATORY BASIS [1]
JUNE 30, 2003

	WPC-SRF SPECIAL REVENUE		WPC-SRF DEBT SERVICE FUND		Drinking Water SPECIAL REVENUE		Drinking Water DEBT SERVICE FUND		
	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	TOTAL
ASSETS									
Cash/Cash Equivalents	$2,709,959	$265,145	$647,844	$155,995	$3,389,828	$179,107	$596,644	$104,520	$8,049,042
Advances to Employees	500				1,000				1,500
Interest Receivable		270,808	799,111	360,064		115,881	347,628	153,129	2,046,621
Due From Federal Government	25,335				248,115				273,450
Investments	7,075,728	4,864,401	84	1,273,388	3,979,876	1,059,200	80	765,668	19,018,425
Loans Receivable	84,695,921				47,109,491				131,805,412
Advances from Other Funds	10,495,510								10,495,510
Total Assets	$105,002,953	$5,400,354	$1,447,039	$1,789,447	$54,728,310	$1,354,188	$944,352	$1,023,317	$171,689,960
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts Payable	$9,512	$24,150			$293,731	$132			$327,525
Payroll Payable	32,254	143							32,397
Deferred Revenue	43				30,395				30,438
Inter-entity Loans Payable	16,000								16,000
Total Liabilities	$57,809	$24,293	$0	$0	$324,126	$132	$0	$0	$406,360
Fund Balances									
Reserved for Loans Receivable	$91,923,022				$46,398,069				$138,321,091
Unreserved, Undesignated	13,022,123	$5,376,061	$1,447,039	$1,789,447	8,006,114	$1,354,056	$944,352	$1,023,317	32,962,509
Total Fund Balances	$104,945,145	$5,376,061	$1,447,039	$1,789,447	$54,404,183	$1,354,056	$944,352	$1,023,317	$171,283,600
Total Liabilities and Fund Balances	$105,002,953	$5,400,354	$1,447,039	$1,789,447	$54,728,310	$1,354,187	$944,352	$1,023,317	$171,689,960

[1] This schedule is prepared on a regulatory basis of presentation, rather than a GAAP [2] basis, as requested by the Environmental Protection Agency (EPA) for the Water Pollution Control and Drinking Water State Revolving Fund (SRF) Programs. This presentation separates certain regulated Revolving Fund (within the Fund) and Non-Revolving Fund (outside the Fund) activity by fund type. All proceeds from the EPA Capitalization Grant, corresponding state matching funds, and loan principal and interest repayments must be deposited into the Revolving Fund under Title VI of the Clean Water Act and Title XIV of the Safe Drinking Water Act. Other proceeds, including Administration and Origination Fees and Loan Loss Reserves are deposited into the Non-Revolving Fund and may be used for other water quality purposes under the federal acts mentioned above.

[2] Generally Accepted Accounting Principles (GAAP).

MONTANA WATER POLLUTION CONTROL AND DRINKING WATER
SCHEDULE OF REVOLVING AND NON-REVOLVING SRF PROGRAM
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
SPECIAL REVENUE AND DEBT SERVICE FUNDS
REGULATORY BASIS [1]
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	WPC-SRF SPECIAL REVENUE		WPC-SRF DEBT SERVICE FUND		Drinking Water SPECIAL REVENUE		Drinking Water DEBT SERVICE FUND		
	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	REVOLVING FUND	NON REVOLVING FUND	TOTAL
REVENUES:									
Federal Capitalization Grant Revenue	$17,080,715				$8,096,835				$25,177,550
Interest Income on Investments	518,042	$424,122	$22,237	($6,760)	318,013	$74,454	$173,762	$11,982	1,535,851
Interest Earnings from Loans	40,006	686,779	2,047,806	830,878	(199,217)	382,455	1,146,038	431,563	5,366,308
Administration and Origination Fees	429,783				100,701				530,484
Total Revenues	$18,068,546	$1,110,901	$2,070,043	$824,118	$8,316,332	$456,909	$1,319,799	$443,546	$32,610,194
EXPENDITURES:									
Program Administration/Set-Asides	$384,242	$6,740			$1,504,582	$1,982			$1,897,546
Total Expenditures	$384,242	$6,740	$0	$0	$1,504,582	$1,982	$0	$0	$1,897,546
Excess Revenues Over/(Under) Expenditures	$17,684,304	$1,104,161	$2,070,043	$824,118	$6,811,750	$454,927	$1,319,799	$443,546	$30,712,648
OTHER FINANCING SOURCES:									
General Obligation Bond Proceeds	$2,730,000				$1,675,000				$4,405,000
Operating Transfers In									
Bonds Cost of Issuance		$69,585				$51,099			120,684
Administration and Origination Fees		145,694		$263,053		36,724		$63,870	509,341
Debt Service Sweep	455,525				450,650				906,175
Arbitrage Rebates	45,817			2,559	31,787	183			80,347
Loan Loss Reserve Sweep	1,005,804				375,014			3,125	1,383,943
Total Other Financing Sources	$4,237,146	$215,279	$0	$265,612	$2,532,451	$88,006	$0	$66,995	$7,405,490
OTHER FINANCING USES:									
Bond Principal			$515,000				$310,000		$825,000
Bond Interest			651,258				411,822		1,063,079
Bonds Cost of Issuance	$21,542	$69,585			$13,401	$51,099			155,627
Arbitrage Taxes				$84,166					84,166
Operating Transfers Out									
Bonds Cost of Issuance	69,585				51,099				120,684
Debt Service Sweep			455,525				450,650		906,175
Administration and Origination Fees	408,747				100,594				509,341
Arbitrage Rebates		2,559		45,817				$31,970	80,347
Loan Loss Reserve Sweep				1,005,804	3,125			$375,014	1,383,943
Total Other Financing Uses	$499,874	$72,145	$1,621,782	$1,135,787	$168,219	$51,099	$1,172,472	$406,984	$5,128,362
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	$21,421,576	$1,247,296	$448,260	($46,057)	$9,175,982	$491,835	$147,328	$103,557	$32,989,776
Fund Balance - July 1, 2002	$83,134,376	$10,132,249	$5,907,190	$9,402,867	$45,548,562	$4,535,735	$2,825,181	$5,014,177	$166,500,337
Prior Year and Federal Revenue Adjustments	389,192	(6,003,484)	(4,908,411)	(7,567,363)	(320,360)	(3,673,514)	(2,028,156)	(4,094,417)	(28,206,513)
Fund Balance - June 30, 2003	$104,945,145	$5,376,061	$1,447,039	$1,789,447	$54,404,183	$1,354,056	$944,352	$1,023,317	$171,283,600

[1] This schedule is prepared on a regulatory basis of presentation, rather than a GAAP [2] basis, as requested by the Environmental Protection Agency (EPA) for the Water Pollution Control and Drinking Water State Revolving Fund (SRF) Programs. This presentation separates certain regulated Revolving Fund (within the Fund) and Non-Revolving Fund (outside the Fund) activity by fund type. All proceeds from the EPA Capitalization Grant, corrasponding state matching funds, and loan principal and interest repayments must be deposited into the Revolving Fund under Title VI of the Clean Water Act and Title XIV of the Safe Drinking Water Act. Other proceeds, including Administration and Origination Fees and Loan Loss Reserves are deposited into the Non-Revolving Fund and may be used for other water quality purposes under the federal acts mentioned above.

[2] Generally Accepted Accounting Principles (GAAP).

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial statements of the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated March 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Montana Water Pollution Control and Drinking Water State Revolving Fund Programs' financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

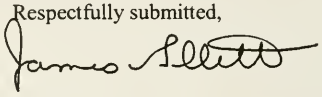
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the departments' (Department of Environmental Quality and Department of Natural Resources and Conservation) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course

of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Legislative Audit Committee, the departments' management, the Montana State Legislature, and the U.S. Environmental Protection Agency and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,



James Gillett, CPA
Deputy Legislative Auditor

March 5, 2004